

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Implement the  
Commission's Procurement Incentive Framework and to  
Examine the Integration of Greenhouse Gas Emissions  
Standards into Procurement Practices

And

*[Also filed at California Energy Commission]*

Rulemaking 06-04-009  
(Filed April 13, 2006)

And

*CEC Docket 07-OIIP-01*

**COMMENTS OF THE INDEPENDENT ENERGY PRODUCERS  
ASSOCIATION IN RESPONSE TO ADMINISTRATIVE LAW  
JUDGE'S RULING REQUESTING COMMENTS ON TYPE AND  
POINT OF REGULATION ISSUES**

**INDEPENDENT ENERGY PRODUCERS  
ASSOCIATION**

Steven Kelly, Policy Director  
1215 K Street, Suite 900  
Sacramento, CA 95814  
Telephone: (916) 448-9499  
Facsimile: (916) 448-0182  
Email: steven@iepa.com

**GOODIN, MACBRIDE, SQUERI,  
DAY & LAMPREY, LLP**

Brian T. Cragg  
505 Sansome Street, Suite 900  
San Francisco, CA 94111  
Telephone: (415) 392-7900  
Facsimile: (415) 398-4321  
Email: bcragg@goodinmacbride.com

Attorneys for the Independent Energy Producers  
Association

Date: December 3, 2007

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Pursuant to the schedule established in the Administrative Law Judge's Ruling Requesting Comments on Type and Point of Regulation Issues, dated November 9, 2007, the Independent Energy Producers Association ("IEP") submits its Comments on the questions posed in that ruling. IEP's responses to the individual questions posed in the Ruling are contained in Attachment A.

Respectfully submitted this 3<sup>rd</sup> day of December, 2007, at San Francisco,  
California.

/s/ Steven Kelly

Steven Kelly

Policy Director

Independent Energy Producers Association

1215 K Street, Suite 900

916/448-9499

Steven@iepa.com

**ATTACHMENT A:  
Questions Posed By ALJ Ruling  
And  
IEP Responses**

**[Questions in boldface]**

**3. Questions to be Addressed in Comments**

**3.1. General**

**Q1. What do you view as the incremental benefits of a market-based system for GHG compliance, in the current California context?**

A market-based system provides a tool for the points of regulation in any regulatory scheme to achieve compliance in an efficient, timely, and effective manner. In general, the purpose of any sort of emission regulation is to internalize the externalities associated with the act of emitting. In this way, the emitters and/or the demanders of the products that are derived from the acts associated with emitting properly bear the costs associated with the emission being regulated. Market-based mechanisms are the most economically efficient way to internalize externalities.

The market becomes a tool by which the points of regulation can reasonably acquire the allowances (or certificates) necessary for compliance at the lowest, market-based cost and/or use these market signals to prompt innovation of, and investment in, lower emitting technologies. In this sense, a market is particularly useful in that it provides an economically efficient, transparent means by which the commodity sought (an allowance or certificate) may be valued and exchanged. In addition, the presence of a transparent, market-based system provides the structure within which innovation may incubate and be fostered. Thus, the incremental benefits are (a) price transparency and revelation, (b) efficient exchange of product between buyer and seller, and (c) effective implementation to ensure timely compliance.

**Q2. Can a market-based system provide additional emissions reductions beyond existing policies and/or programs? If so, at what level? How much of such additional emission reductions could be achieved through expansion of existing policies and/or programs?**

A market-based system is a tool to achieve an end. If policymakers seek additional emission reductions beyond existing policies and programs, then a market serves as an efficient and effective tool to achieve that end. The market itself is not the goal, per se.

What a market does, however, is provide a transparent and economically efficient means to determine what the expected cost may be to achieve additional emission reductions (e.g. transparency in the cost of CO<sub>2</sub> reduction). To the extent that innovation (e.g. in the

form of offsets) or efficiencies (e.g. technology improvements and/or operational improvements) are realized, the additional reductions associated with these outcomes are more likely to come to the fore more quickly and in a more cost effective manner than would occur absent a market-based system.

### **3.2. Principles or Objectives to be Considered in Evaluating Design Options**

**Public Utilities Commission Staff proposes that the following principles or objectives be used to evaluate GHG program design options and to develop recommendations regarding a GHG regulatory approach. The objectives are not presented in any particular order.**

- **Goal attainment: Does the approach being considered have any particular advantages in terms of meeting overall emission reduction goals? For example, does the approach have any advantages to promoting energy efficiency, combined heat and power, or renewable energy?**

Existing California law and regulation prescribes GHG, RPS, EE mandates. We assume that these will be met, and the GHG program need not be seen necessarily as the vehicle to replace other, non-GHG mandates. However, to the extent that markets are allowed to signal the relative benefits of these preferred technologies, the mandates associated with these programs may have an increased probability of being attained.

- **Cost minimization: Is the approach likely to minimize the total cost to end users of achieving a given GHG reduction target?**

The issue of cost minimization needs to be considered in terms of short-term versus long-term costs. Often, a strategy that embarks on realizing short-term cost reduction has the effect of increasing long-term costs. As the GHG emission reduction program is a long-term policy (e.g. 2050), then IEP recommends that the issue of cost minimization be considered from a long-term cost minimization approach (vs. short-term cost minimization). A long-term cost minimization approach will ensure that final policy objectives/goals will be attained at least cost to consumers and will avoid the traps on taking less costly, but perhaps less effective, policy steps at the outset. Moreover, IEP believes that cost-effectiveness and economic efficiency are inextricably linked.

- **Compatibility with wholesale markets and the Market Redesign and Technology Upgrade: What are the implications of the approach on efficient functioning of wholesale markets generally and the Independent System Operator day-ahead and real-time markets?**

If generators are identified as the “point of regulation,” they must have a reasonable means to recover the costs of GHG compliance. Otherwise, grid reliability (see below) becomes an issue. Under this scenario, IEP assumes that the wholesale markets will become a reasonable means to recover the variable costs of operating, including those costs associated with GHG compliance. For example, long-term contract holders, including but not limited to qualifying facilities (QFs) and certain DWR contracts, have contracts (power purchase agreements or PPAs) that presently have no mechanism to manage these potentially sizable new CO<sub>2</sub> associated costs. The CPUC/CEC must be mindful that long established generators in such circumstances must either have a reasonable means to recover the costs of GHG compliance or to transition into the new regulatory scheme after their current commitments expire.

• **Legal risk: Is the approach at greater relative risk of being delayed or overturned in court?**

Any approach has legal risk and it’s likely that either direction the Commission pursues in the matter of GHG emission reduction raises potential legal hurdles. However, if a particular path raises the specter of constitutional and/or legal barriers (i.e. such barriers are highly likely to thwart the Commission’s goals), and such concerns are based on a consensus within the informed legal community, then the Commission should pause and consider its preferred path.

• **Environmental Integrity: Does the approach mitigate or allow contract shuffling and the leakage of emissions occurring outside of California as a result of efforts to reduce emissions in California?**

IEP has been clear from the beginning about its concern over the potential for contract leakage (and/or contract shuffling, if that practice leads to leakage). However, the Commission should reframe this principle in the context of scope/scale. As it may be impossible to mitigate in advance all potential leakage, it would be better to frame the issue of Environmental Integrity in terms of whether one approach (vs. another) is more likely to result in a significant amount of leakage (e.g. 10% or more). If any program successfully and accurately captures a substantial portion of the GHG emissions associated with California’s consumption (e.g. 90% or more), then that should be considered having passed a suitable threshold for environmental integrity.

- **Expandability: Would the approach integrate easily into a broader regional or national program? A related consideration is the suitability of the approach as a model for a national or regional program.**

IEP has been clear from the beginning about the desirability of being able to link to broader regional programs (west-wide, federal, and/or international). However, this feature of California's program need not be to the exclusion of interim transitional programs until broader regional programs are in place. A major argument for a source based (first seller) approach is its ability to integrate with other programs. Currently, there is no national program. Speculation on what a national program, if one materializes, may look like should not be the primary driver for the most effective structure implementing California law. Rather, the most effective near term program for California should be the priority. If a load-based approach is implemented, care should be given to the ability to convert a load-based approach to a source based approach at a point in the future, should that be required (e.g. if a national source-based program is adopted).

- **Accuracy: Does the approach support accuracy in reporting and, therefore, ensure that reported emission reductions are real?**

Accuracy in reporting of emissions is critical. CARB will have imposed stringent reporting requirements on in-state sources. These mandatory reporting requirements will come into play regardless of the ultimate determination of the point of regulation. To the extent practical, accuracy in reporting should be critical to the program. Recognizing, however, accurate reporting from out-of-state generation resources serving California load may be difficult to achieve pending a broader regional effort. In these limited instances, IEP recommends using estimation techniques for undifferentiated power such that the undifferentiated and/or out-of-state resources have an incentive to report emissions data to California regulators. Using marginal emission rates rather than average emissions rates creates the proper incentives to best achieve this end.

- **Administrative Simplicity: Does the approach promote greater simplicity for reporting entities, verifiers, and state agency staff? How easy will the program design be to administer?**

**Q3. Do you agree with this set of objectives? Are there other objectives or principles that you wish to see included? If so, please include your recommendations and reasoning. Finally, please rank the objectives above, and any additional factors you propose, in order of importance.**

IEP's comments on the staff's proposed set of objectives are provided beneath each objective above. Regarding additional objectives or principles that should be included in the assessment of which GHG emission reduction paradigm should be employed, IEP recommends consideration of the following:

- **Grid Reliability:** To what extent will the proposed approach support (or alternatively undermine) grid reliability and electricity service? AB 32 Section 38501(h) states directly that the emission reduction measures be designed in a manner that, among other things, "maintains electric system reliability." IEP believes that if this design objective is not realized, as a threshold matter, then the other objectives will, in hindsight, look pale in comparison.

In term of ranking the objectives above, IEP believes that all are important. Accordingly, IEP ranks the program design objectives *relative to each other* based on the following scale:

- 1=Very Important
- 2= Somewhat Important
- 3= Less Important
- 4=Not Important

IEP offers the following ranking:

Principal/Criteria:	Ranking:
<b>Goal attainment</b>	3 *
<b>Cost minimization</b>	2
<b>Compatibility with wholesale markets and the Market Redesign and Technology Upgrade</b>	2
<b>Legal risk</b>	2
<b>Environmental Integrity</b>	2
<b>Expandability</b>	1
<b>Accuracy</b>	2
<b>Administrative Simplicity</b>	3
<b>Grid Reliability</b>	1

\* IEP believes goal attainment is of high importance. However, we rank goal attainment relatively lower than the other design criteria due to the presumption that, if late in program implementation it appears the 2020 emission reduction goals are not achievable, then we believe ramping up regulatory obligations in order to meet the 2020 obligations (i.e. goal attainment) should be considered as relatively less important at that time than other criteria such as cost minimization, legal risk, environmental integrity, accuracy, expandability, administrative simplicity, etc.

### 3.3. Load-Based Cap-and-Trade System Design

Under a load-based approach, the regulated entities would be the retail providers of

**electricity to California consumers. Retail providers would be required to surrender allowances for the GHG emissions associated with all power sold to end users in California. Generators would not have a compliance obligation under this system, except possibly for exported power, as discussed in more detail below.**

**Q4. With a load-based cap-and-trade system, should exports from in-state generation sources be included and accounted for under the cap? Why or why not? If so, how? For example, exports could be captured in a cap-and-trade system by regulating in-state sources that export, or by counting the emissions associated with exported power, without any compliance obligation on the exporter. There may be other options as well.**

The emissions associated with exports should not be imputed to any in-state LSE. However, as CARB implements its statewide cap, it can use the emissions associated with exports derived from in-state generations in its calculations. Power which is imported and then exported (“wheeling through”) need not be attributed in either an LSE-based cap or a statewide cap.

**Q5. How extensive do you view the threat of contract shuffling under a load-based program, given the accessibility of clean resources within the western interconnect? What mechanisms do you propose to combat this possibility? On what basis do you support your position? Under a load-based system, three basic options may be used to match a retail provider’s load to the sources of electricity used to serve the load: (1) the use of contracts and settlements data, (2) the development of a tracking system to facilitate matching sources to loads, with unclaimed sources pooled and assigned to all retail providers for any electricity that cannot be accounted for on a specified basis, and (3) the use of a tracking system and tradable emission attribute certificates (TEAC) to ensure that all electricity is assigned.**

IEP’s understanding is that the amount of power that is not differentiated is relatively low. IEP has argued in the past that it would probably be less costly and administratively simpler to impute emissions associated with undifferentiated power based on the marginal emitting unit. This would create the incentives for parties to differentiate power more clearly so as to avoid having that undifferentiated power linked to an imputed number based on the marginal emitting unit. This method serves as a sufficient transitional mechanism until broader, regional generator information (GIS) or TEAC system gets developed. Upon implementation of a regional and/or national program, the concerns over contract shuffling become moot.

**Q6. Which of these systems best accounts for all imports? What are the advantages and disadvantages of each potential tracking system in terms of accuracy, cost of development and administration of tracking systems, costs of administration to the parties, and overall costs to ratepayers? Are there alternative tracking approaches that you would recommend, and for what reasons?**

The best means for accounting for all imports is a regional GIS or TEAC system. Both



require some additional administrative costs. Perhaps more importantly, both require a sufficient amount of regional cooperation to make it efficient and effective. In the interim, neither this approach nor an alternative tracking mechanism match the simplicity of imputing marginal emissions for undifferentiated power.

**Q7. If a load-based approach is pursued, would the potential benefits of a full TEAC system be great enough to warrant the start-up and administrative costs?**

IEP understands a TEAC system to have the following characteristics: (a) generators receive unique certificates for MWh produced that represent an emissions level/value; (b) LSEs purchase the unique certificates either directly from generators (e.g. via a PPA) or via a market (e.g. secondary trading market); and (c) LSEs use TEACs for regulatory compliance.

If a load-based system is pursued, a TEAC approach provides sufficient benefits to warrant the start-up and administrative costs. A developed TEAC system would provide the following benefits:

- A unique serial number for each MWh produced.
- Transparency and accounting simplicity.
- Liquidity in a commodity market.
- Incentives for cleaner generation.
- Avoids “economic dislocation” on generators.
- Minimizes cost of compliance.
- Potential for (a) adoption regionally and/or (b) serving as transitional approach until broader regional/federal system gets defined.

### **3.4. Source-based Cap-and-trade System Design Options**

#### **3.4.1. Pure Source-based (GHG Regulation of In-state Generation Only)**

**Under an in-state-only source-based approach, the regulated entities would be the power plants located in California that generate electricity and emit GHGs. Under such a system, electricity use associated with imports would not be directly regulated under the cap-and-trade system. Instead, other policies and programs such as energy efficiency and the Renewable Portfolio Standard (RPS) would be utilized to decrease reliance on imported GHG-intensive power sources.**

**Q8. Do you view this approach as compliant with Assembly Bill (AB) 32? Please support your answer. The threat of leakage can be viewed over two time horizons: short-term and long-term.**

IEP does not view a program that disregards imports as compliant with AB 32. Nothing in AB32 prescribes treating imports differently than in-state generation. Quite the opposite, AB32 specifically includes the consideration of imports simultaneously with

the consideration of in-state generation. For example:

- Section 3855(m) defines “Statewide greenhouse gas emissions” as “the total annual emissions of greenhouse gases in the state, including all emissions of greenhouse gases from the generation of electricity delivered to and consumed in California, ... whether the electricity is generated in state or imported.” This provision directs the CARB to include the consideration of imports simultaneously with the consideration of in-state generation.
- Section 38530(2), related to the reporting and verification of statewide greenhouse gas emissions, directs CARB to “Account for greenhouse gas emissions from all electricity consumed in the state ...” This provision directs the CARB to include the consideration of imports simultaneously with the consideration of in-state generation.
- Section 38570(b)(2) directs the CARB in the consideration of market-based compliance mechanisms to “Design any market-based compliance mechanism to prevent any increase in the emissions to toxic air contaminants or criteria air pollutants.” This provision directs the CARB to consider impacts on out-of-state generation. This includes imports.

Moreover, roughly half of the electric sector’s GHG emissions are associated with power imports. Thus, ignoring imports would place an unjust burden on relatively cleaner in-state generation.

**Q9. In light of the relatively high capacity factors of carbon-intensive facilities outside the state, how extensive do you expect the short-term threat of substituting higher-carbon imports for in-state generation to be? Might this possibility be dealt with through specific program design (e.g., allocations, limiting conditions, etc.)?**

This threat can be mitigated if undifferentiated power imports are imputed the emissions of the marginal emitting unit. If this were the case, then the threat of substitution would likely be small and of small duration.

**Q10. Given existing procurement oversight and the prospect for a regional or federal GHG program in the foreseeable future, how extensive do you expect the threat to be of a longer-term shift of production to regions beyond the reach of a California source-based cap-and-trade regime?**

The prospect of shifting energy production out of state is limited by (a) time to development new projects, (b) transmission infrastructure investment and timing of new investment, and (c) consumer demand in other states. The threat of a long-term shift of production to regions beyond the reach of the California source-based cap and trade program is limited most importantly by the procurement practices of the LSEs in-state.

Given the adopted EPS standard, and more importantly the CPUC/CEC/Local Governing Board's control over the procurement practices of their regulated entities, IEP views the long-term threat of shifting production to higher emitting resources located out-of-state as de-minimis.

**Q11. If emissions associated with imported power are excluded from a cap-and-trade program, what policies beyond the existing suite of program including energy efficiency, California Solar Initiative, RPS, and Emission Performance Standard (EPS) do you recommend that California employ to achieve the necessary reductions from the electricity sector?**

These policies probably will be sufficient. IEP reminds the Commission, however, that while the Commission is seeking to achieve "the necessary reductions from the electricity sector," the Commission (and other policymakers) are considering increasing the demand for electricity (all things being equal) due to the electrification of the transportation sector. It is quite conceivable that, while attaining the statewide cap prescribed in AB 32, the emissions from the electricity may increase as (all things being equal) due to increased electrical demand driven by the state's GHG emission reduction policy. This needs to be taken into account in the Scoping Plan and when establishing reduction goals for the electricity sector.

**Q12. As the Public Utilities Commission does not currently have authority to oversee all energy efficiency and renewable procurement programs for all kinds of retail providers (investor owned utilities (IOUs), community choice aggregators (CCAs), electric service providers (ESPs), and publicly owned utilities (POUs)), which agency(ies) should fill in any gaps? Which agency should be responsible for overseeing energy efficiency and renewable procurement for POUs? Would the California Air Resources Board (ARB) have the authority to require certain energy efficiency and renewable targets be met by POUs?**

ARB has the authority to require the POUs to comply with AB 32. It is hard to understand how the POUs will accomplish this without significant investment in energy efficiency and renewables.

**Q13. What sources would a source-based system cover? Could it cover California utility-owned facilities located outside of California?**

California regulates its utilities and most importantly controls behavior through rate recovery. IEP would have to understand more about how the state would attempt to cover California-owned facilities located outside of California to comment more.

**Q14. Would a strengthened EPS assist in reducing emissions due to California imports? What recommended changes would you make to the EPS?**

None at present. Regulatory stability and predictability is important for investing in new infrastructure. The EPS is less than one year old. There is no reason to change it.

### **3.4.2. Deliverer/First Seller**

The term “deliverer/first seller” generally refers to the entity that first delivers or sells electricity into the electricity grid in California. For generation within California, the deliverer/first seller (the regulated entity) would be the generator, similar to a source-based system. For imported power, the deliverer/first seller would be the entity that delivers the electricity into the California grid (the first sale within California), which could be a retail provider (an IOU, POU, ESP, or CCA) or wholesale marketer.

**Q15. Please comment on the “First Seller Design Description” paper, which is Attachment A to this ruling. Does the paper accurately describe the deliverer/first seller program? If not, describe your concerns and include an accurate description from your perspective.**

### **3.4.3. Source-based for In-state Generation, Loadbased for Imports**

Under this approach, the point of regulation would be the electricity generators for in-state generation and the retail providers for imported power.

**Q16. Please describe in detail your view of how this option would work.**

The presumption is that, if the pure “1<sup>st</sup> Seller Approach” has legal barriers, then this approach may avoid any such barriers. Under this approach, electric generators would report direct emissions to CARB. Presumably, retail providers (LSEs) would report directly to CARB the emissions associated with their imports. To the extent the emissions were unknown (e.g. due to purchases from undifferentiated power), then the LSEs would impute an emissions factors based on an approved methodology. This appears to be implementable. However, while perhaps implementable, this approach creates anti-competitive impacts under any scenario in which the LSE (in this scenario needing allowances for imports) is allowed to control the auctioning and/or distribution of allowances to sources such as electric generators that may also need them.

**Q17. Do you support such an approach? Why or why not?**

IEP would have to understand more about the details of this approach.

**Q18. Does this approach have legal issues associated with it? Provide a detailed analysis and legal citations.**

IEP would have to understand more about the details of this approach.

**Q19. If retail providers are responsible for internalizing the cost of carbon for imported power, all power generated in-state may need to be tracked to load to**

**avoid double regulation of in-state power. Do you agree?**

IEP would have to understand more about the details of this approach.

**Q20. If that is the case, does a mixed source-based/load-based approach offer any advantages compared to a load-based approach in terms of simplifying reporting and tracking? What if the load-based system uses TEACs? How could imports be differentiated from in-state generation in a way that reduces the complexity of reporting and tracking compared to a load-based approach?**

On its face, tracking and accounting would be more complicated. It is not clear how a hybrid approach, entailing reporting from two separate layers of the paradigm, would be administratively simpler than requiring reporting from a single layer of the paradigm.

### **3.5. Deferral of a Market-based Cap-and-Trade System**

**In this scenario, a California-only cap-and-trade system would not be implemented for the electricity sector at this time. Instead, California would work with other eastern states to develop a Western Climate Initiative cap-and trade system and/or work toward a national cap-and-trade program. In the meantime, existing policies and programs in the electricity sector may need to be ramped up to meet the AB 32 goals. Several variations of this option may be possible. For example, a load-based cap could still be developed for retail providers, with assignment of individual entity obligations and trading available within the California electricity sector only, but not with other sectors. A second alternative would be to develop individual entity caps (or carbon budgets) which entities could not exceed without facing penalties or fees, but not allow for any trading of allowances at this time. Another option would be to ramp up the mandatory levels of existing programs such as the energy efficiency and RPS programs to higher goals, and make all retail providers obligated to meet these additional goals, without assigning specific cap levels to individual entities.**

**Q21. How important is it that a cap-and-trade system be included in the near-term as part of the electricity sector's AB 32 compliance strategy?**

As a general observation: while the existing EPS, RPS and energy efficiency policies are all relevant in meeting AB 32, there is a great deal of uncertainty as to what the value of further CO2 reduction may be in making investment decisions. A cap and trade system would create transparent prices which could drive further investment. A properly design cap/trade program delivers efficiency, innovation, and relatively-lower cost of compliance. Given the likely costs of compliance overall, delaying a cap/trade regime will result in higher overall costs.

**Q22. Would your answer to Q12 be different if there is no market-based cap-and-trade system? If so, please explain.**

IEP would have to understand more about the details of this approach. IEP assumes that

generators will have to comply with AB32 with or without a cap and trade policy.

**Q23. Address the following:**

**• How emission reduction obligations could be met if there is no cap-and-trade system for the electricity sector,**

Under a 1<sup>st</sup> Seller approach, it is not clear how emission reduction obligations could be met absent significant technology advancement. On the other hand, under a 1<sup>st</sup> Seller approach, regulatory requirements to force compliance without options/innovations available through an effective cap-and-trade program risk undermining grid reliability, if generators have no effective and efficient means to recover the costs of compliance.

Under a LSE-based approach, acceleration and expansion of various low-emitting mandates (e.g. RPS, EE) would be a necessity although it would remain uncertain whether sufficient, measurable new renewable and new EE opportunities could be brought online in a timely manner.

**• How increased programmatic goals would impact rates, and**

As the biggest driver in achieving the GHG emission reduction goals will be consumer behavior, it would be a mistake to attempt to shield consumers from the cost impacts as this will undermine the incentives needed to alter consumer behavior.

**• How deferral of a cap-and-trade program for the electricity sector would facilitate or hinder California's integration into a subsequent regional or federal program.**

See answer to Q24.

**Q24. How deferral of a cap-and-trade program for the electricity sector would facilitate or hinder California's integration into a subsequent regional or federal program.**

There is no federal program. Whether there will be one, or what form it will actually take, is a matter of speculation. California DOES have a law, which DOES need to be implemented. The real question is whether a cap and trade policy is an effective tool in implementing California law. If California develops a cap and trade policy then care should be taken that it can be integrated in to larger markets in the future. Moreover, California risks losing its leadership role in the design and implementation of regional/federal program(s) if it defers to broader discussions. Also, importantly, if a well designed cap-and-trade program results in efficient outcomes as expected, then the deferral of the implementation of the cap-and-trade program will have the effect of increasing costs and/or decreasing benefits to consumers.

**Q25. If neither a regional system nor a national system is implemented within a reasonable timeframe, should California proceed with implementing its own cap-and-trade system for the electricity sector? If so, how long should California wait for other systems to develop before acting alone?**

2012 is the implementation date for AB 32. If the cap-and-trade approach is determined to be a component for compliance, then it need to be in place by 2011. California risks losing its leadership role in the design and implementation of regional/federal program(s) if it defers to broader discussions. If California can develop an efficient and effective cap-and-trade program, it should do so.

**Q26. What flexible compliance mechanisms could be integrated into a non-market based GHG emission reduction approach?**

IEP would have to understand more about the details of this approach.

**Q27. If a market-based cap-and-trade system is not implemented for the electricity sector in 2012, how would you recommend addressing early actions that entities may have undertaken in anticipation of a market?**

Early actions should be credited against compliance obligations. For entities taking early action that are not “points of regulation,” then a means should be considered by which the “points of regulation” can obtain, procure, etc., credits associated with the “early action” identified via the Climate Action Registry. This would provide a means to value the early actions taken by others, thereby rewarding this behavior and incenting more. In this manner, the “early action” credits represent another commodity bought/sold in the marketplace (similar to an RPS certificate).

### **3.6. Recommendation and Comparison of Alternatives**

**Q28. Submit your comprehensive proposal for the approach California should utilize regarding the point of regulation and whether California should implement a cap-and-trade program at this time for the electricity sector. If you recommend that another approach be considered besides those detailed above, propose it here. If you recommend one of the above options, give as detailed a discussion as possible of how the approach would work.**

IEP does not have a recommended approach. However, we offer the following observations:

If a LSE-based approach is employed, the use of emission credits as proposed by the Western Resources Advocates warrants strong consideration. As IEP understands this approach, emission credits would be treated much akin to “renewable energy credits” or RECs. In effect, they are a product required to be obtained by the LSEs to measure against compliance goals. The emission credits are assigned to generators based on their relative emissions against a baseline. The cleaner the resource, the more the emissions awarded/granted to the generator. As noted previously, this type of approach has the following nuances:

- Incentivizes cleaner generation which is the ultimate goal of the program.
- Does not impose an additional burden on higher emitting resources (i.e. the burden to acquire allowances), but rather rewards relatively cleaner resources.

- Does not raise issues regarding “where the revenues go” associated with the allocation of allowances. Under this approach, the dollars derived from ratepayers are funneled through the LSE and allocated via various procurement processes to cleaner generation. In return, the LSE receives the emission credit which it applies toward GHG compliance.

If a 1<sup>st</sup> Seller Approach (or any hybrid approach in which generators are the point of regulation), it is imperative that LSEs that compete in the marketplace for the development of new generation NOT BE PLACED in a position where they acquire allowances and sell them to their competitors. This raises obvious anti-competitive concerns.

**Q29. Address and compare how each of the alternatives identified in the above questions, and the proposal you submit in response to relative to each of the principles or objectives listed above and any other principles or objectives you propose. For each alternative, address important tradeoffs among the principles.**

2970/019/X94766.v1



## **CERTIFICATE OF SERVICE**

I, Melinda LaJaunie, certify that I have on this 3<sup>rd</sup> day of December 2007 caused a copy of the foregoing

### **COMMENTS OF THE INDEPENDENT ENERGY PRODUCERS ASSOCIATION IN RESPONSE TO ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING COMMENTS ON TYPE AND POINT OF REGULATION ISSUES**

to be served on all known parties to R.06-04-009 listed on the most recently updated service list available on the California Public Utilities Commission website, via email to those listed with email and via U.S. mail to those without email service. I also caused courtesy copies to be hand-delivered as follows:

Commissioner President Michael R. Peevey  
California Public Utilities Commission  
State Building, Room 5218  
505 Van Ness Avenue  
San Francisco, CA 94102

ALJ Charlotte TerKeurst  
California Public Utilities Commission  
State Building, Room 5117  
505 Van Ness Avenue  
San Francisco, CA 94102

ALJ Jonathan Lakritz  
California Public Utilities Commission  
State Building, Room 5020  
505 Van Ness Avenue  
San Francisco, CA 94102

I declare under penalty of perjury that the foregoing is true and correct. Executed this 3<sup>rd</sup> day of December 2007 at San Francisco, California.

/s/ Melinda LaJaunie  
Melinda LaJaunie

# Service List – R.06-04-009 (Updated November 30, 2007)

ANDREW BROWN abb@eslawfirm.com	ANNETTE GILLIAM annette.gilliam@sce.com	BRIAN MCQUOWN bmcquown@reliant.com	Cathleen A. Fogel cfl@cpuc.ca.gov
ASHLEE M. BONDS abonds@thelen.com	ALVIN PAK apak@sempraglobal.com	BOB LUCAS Bob.lucas@calobby.com	Charlotte TerKeurst cft@cpuc.ca.gov
AUDREY CHANG achang@nrdc.org	ARNO HARRIS arno@recurrentenergy.com	BRIAN POTTS bpotts@foley.com	CHARLIE BLAIR charlie.blair@delta-ee.com
ADAM BRIONES adamb@greenlining.org	ALLEN K. TRIAL atrial@sempra.com	BALWANT S. PUREWAL bpurewal@water.ca.gov	CHRISTOPHER A. HILEN chilen@sppc.com
Anne Gillette aeg@cpuc.ca.gov	ANN L. TROWBRIDGE atrowbridge@daycartermurphy.com	BARRY RABE brabe@umich.edu	CHRISTOPHER J. WARNER cjlw5@pge.com
Andrew Campbell agc@cpuc.ca.gov	AUDRA HARTMANN Audra.Hartmann@Dynegy.com	BARBARA R. BARKOVICH brbarkovich@earthlink.net	CYNTHIA MITCHELL ckmitchell1@sbcglobal.net
ANN G. GRIMALDI agrimaldi@mckennalong.com	ANDREA WELLER aweller@sel.com	BIANCA BOWMAN BRBc@pge.com	CATHERINE M. KRUPKA ckrupka@mwe.com
AIMEE BARNES aimee.barnes@ecosecurities.com	ELIZABETH BAKER bbaker@summitblue.com	BRENDA LEMAY brenda.lemay@horizonwind.com	CLARENCE BINNINGER clarence.binninger@doj.ca.gov
ADAM J. KATZ ajkatz@mwe.com	BUD BEEBE bbeebe@smud.org	DALLAS BURTRAW burtraw@rff.org	CLARK BERNIER clark.bernier@rlw.com
AKBAR JAZAYEIRI akbar.jazayeri@sce.com	B. B. BLEVINS bblevins@energy.state.ca.us	JOSHUA BUSHINSKY bushinskyj@pewclimate.org	CLYDE MURLEY clyde.murley@comcast.net
ALEXIA C. KELLY akelly@climatetrust.org	BRIAN T. CRAGG bcragg@goodinmacbride.com	BARRY R. WALLERSTEIN bwallerstein@aqmd.gov	CAROLYN M. KEHREIN cmkehrein@ems-ca.com
ALAN COMNES alan.comnes@nrgenergy.com	BALDASSARO DI CAPO bdicapo@caiso.com	CHRIS MARNAY C_Marnay@lbl.gov	COLIN PETHERAM colin.petheram@att.com
ALDYN HOEKSTRA aldyn.hoekstra@paceglobal.com	RYAN BERNARDO bernardo@braunlegal.com	CINDY ADAMS cadams@covantaenergy.com	Eugene Cadenasso cpe@cpuc.ca.gov
ANDREW L. HARRIS alho@pge.com	BETH VAUGHAN beth@beth411.com	CATHIE ALLEN californiadockets@pacificorp.com	CARL PECHMAN cpechman@powereconomics.com
AMBER MAHONE amber@ethree.com	BETTY SETO Betty.Seto@kema.com	CARLA PETERMAN carla.peterman@gmail.com	CATHY S. WOOLLUMS cswoolums@midamerican.com
AIMEE M. SMITH amsmith@sempra.com	WILLIAM H. CHEN bill.chen@constellation.com	IAN CARTER carter@icta.org	CURT BARRY curt.barry@iwpnews.com
ANDREW BRADFORD andrew.bradford@constellation.com	BILL SCHRAND bill.schrand@swgas.com	CASE ADMINISTRATION case.admin@sce.com	CURTIS L. KEBLER curtis.kebler@gs.com
ANDREW MCALLISTER andrew.mcallister@energycenter.org	BRUNO JEIDER bjeider@ci.burbank.ca.us	CATHY A. KARLSTAD cathy.karlstad@sce.com	CYNTHIA A. FONNER Cynthia.A.Fonner@constellation.com
ANDREW J. VAN HORN andy.vanhorn@vhcenergy.com	BARRY LOVELL bjl@bry.com	CARMEN E. BASKETTE cbaskette@enernoc.com	CYNTHIA SCHULTZ cynthia.schultz@pacificorp.com
ANITA HART anita.hart@swgas.com	BRIAN M. JONES bjones@mjb Bradley.com	CLARE BREIDENICH cbreidenich@yahoo.com	DANIEL A. KING daking@sempra.com
ANNABELLE MALINS annabelle.malins@fco.gov.uk	BRIAN K. CHERRY bk7@pge.com	CLIFF CHEN cchen@ucsusa.org	DAN ADLER Dan.adler@calcef.org
ANNE-MARIE MADISON Anne-Marie_Madison@TransAlta.com	Beth Moore blm@cpuc.ca.gov	CALIFORNIA ENERGY MARKETS cem@newsdata.com	DAN SKOPEC danskopec@gmail.com
	BARRY F. MCCARTHY bmcc@mccarthylaw.com		DAN SILVERIA dansvec@hdo.net

DAVID L. MODISETTE dave@ppallc.com	DARRELL SOYARS dsoyars@sppc.com	FIJI GEORGE fiji.george@elpaso.com	Henry Stern hsl@cpuc.ca.gov
DAVID ZONANA david.zonana@doj.ca.gov	DEAN R. TIBBS dtibbs@aes4u.com	KAREN TERRANOVA filings@a-klaw.com	CAROL J. HURLOCK hurlock@water.ca.gov
DAVID BRANCHCOMB david@branchcomb.com	DEVRA WANG dwang@nrde.org	F. Jackson Stoddard fjs@cpuc.ca.gov	HUGH YAO HYao@SemptraUtilities.com
DAVID NEMTZOW david@nemtzw.com	DON WOOD dwood8@cox.net	FRANK STERN fstern@summitblue.com	Harvey Y. Morris hym@cpuc.ca.gov
DAVID REYNOLDS davidreynolds@ncpa.com	DONALD SCHOENBECK dws@r-c-s-inc.com	WES MONIER fwmonier@tid.org	SUE KATELEY info@calseia.org
DOUGLAS BROOKS dbrooks@nevpc.com	ED CHIANG echiang@elementmarkets.com	GARY BARCH gbarch@knowledgeinenergy.com	JACK BURKE jack.burke@energycenter.org
DONALD BROOKHYSER deb@a-klaw.com	Ed Moldavsky edm@cpuc.ca.gov	GREG BLUE gblue@enxco.com	JAMES W. KEATING james.keating@bp.com
DEBORAH SLON deborah.slon@doj.ca.gov	ELIZABETH WESTBY egw@a-klaw.com	GEORGE HOPLEY george.hopley@barcap.com	JANILL RICHARDS janill.richards@doj.ca.gov
DENNIS M.P. EHLING dehling@kling.com	ELIZABETH W. HADLEY ehadley@reupower.com	GARY HINNERS ghinners@reliant.com	JEANNE B. ARMSTRONG jarmstrong@goodinmacbride.com
DEREK MARKOLF derek@climaterestry.org	E.J. WRIGHT ej_wright@oxy.com	GLORIA BRITTON GloriaB@anzaelectric.org	JASON DUBCHAK jason.dubchak@niskags.com
DAN HECHT dhecht@sempratrading.com	EVELYN KAHL ek@a-klaw.com	GREGGORY L. WHEATLAND glw@eslawfirm.com	Jamie Fordyce jbf@cpuc.ca.gov
DAVID L. HUARD dhuard@manatt.com	ELSTON K. GRUBAUGH ekgrubaugh@iid.com	GREGG MORRIS gmorris@emf.net	JOHN B. WELDON, JR. jbw@slwplc.com
DIANE I. FELLMAN diane_fellman@fpl.com	ED LUCHA ELL5@pge.com	GORDON PICKERING gpickering@navigantconsulting.com	JENNIFER CHAMBERLIN jchamberlin@strategicenergy.com
WILLIAM F. DIETRICH dietrichlaw2@earthlink.net	EDWARD VINE elvine@lbl.gov	GREGORY KOISER gregory.koiser@constellation.com	Judith Ikle jci@cpuc.ca.gov
Diana L. Lee dil@cpuc.ca.gov	MAHLON ALDRIDGE emahlon@ecoact.org	GRANT ROSENBLUM, ESQ. grosenblum@caiso.com	JONATHAN FORRESTER JDF1@PGE.COM
DOUGLAS K. KERNER dkk@eslawfirm.com	ELENA MELLO emello@sppc.com	GLORIA D. SMITH gsmith@adamsbroadwell.com	JEFFERY D. HARRIS jdh@eslawfirm.com
Don Schultz dks@cpuc.ca.gov	EDWARD G POOLE epoole@adplaw.com	GRACE LIVINGSTON-NUNLEY gx12@pge.com	JEFFREY DOLL jdoll@arb.ca.gov
DOUGLAS MACMULLEN dmacmull@water.ca.gov	EVAN POWERS epowers@arb.ca.gov	HARVEY EDER harveyederpspc.org@hotmail.com	JEANNE M. SOLE jeanne.sole@sfgov.org
DARYL METZ dmetz@energy.state.ca.us	CALIFORNIA ISO e-recipient@caiso.com	HAYLEY GOODSON hayley@turn.org	JEFFREY P. GRAY jeffgray@dwt.com
DESPINA NIEHAUS dniehaus@semprautilities.com	EDWARD J. TIEDEMANN etiedemann@kmtg.com	HOLLY B. CRONIN hcronin@water.ca.gov	JEN MCGRAW jen@cnt.org
DANIEL W. DOUGLASS douglass@energyattorney.com	ELLEN WOLFE ewolfe@resero.com	HOWARD V. GOLUB hgolub@nixonpeabody.com	JENINE SCHENK jenine.schenk@apses.com
DANIELLE MATTHEWS SEPERAS dseperas@calpine.com	ELIZABETH ZELLJADT ez@pointcarbon.com	J. ANDREW HOERNER hoerner@redefiningprogress.org	JENNIFER PORTER jennifer.porter@energycenter.org
Donald R. Smith dsh@cpuc.ca.gov	FARROKH ALBUEYEH farrokh.albueyeh@oati.net		GERALD L. LAHR JerryL@abag.ca.gov

JESUS ARREDONDO jesus.arredondo@nrgenergy.com	UDITH B. SANDERS jsanders@caiso.com	KERRY HATTEVIK kerry.hattevik@mirant.com	LISA SCHWARTZ lisa.c.schwartz@state.or.us
Julie A. Fitch jf2@cpuc.ca.gov	JANINE L. SCANCARELLI jscancarelli@flk.com	KEVIN BOUDREAUX kevin.boudreaux@calpine.com	LISA WEINZIMER lisa_weinzimer@platts.com
JULIE GILL jgill@caiso.com	JAMES D. SQUERI jsqueri@gmssr.com	KEVIN FOX kfox@wsgr.com	LAD LORENZ llorenz@semprautilities.com
JOSEPH GRECO jgreco@caithnessenergy.com	Jeorge S. Tagnipes jst@cpuc.ca.gov	KASSANDRA GOUGH kgough@calpine.com	LYNELLE LUND llund@commerceenergy.com
JEFFREY L. HAHN jhahn@covantaenergy.com	Joel T. Perlstein jtp@cpuc.ca.gov	KRISTIN GRENFELL kgrenfell@nrdc.org	LYNN HAUG lmh@eslawfirm.com
JAMES ROSS jimross@r-c-s-inc.com	JULIE L. MARTIN julie.martin@bp.com	KAREN GRIFFIN kgriffin@energy.state.ca.us	LORRAINE PASKETT Lorraine.Paskett@ladwp.com
JJ PRUCNAL jj.prucnal@swgas.com	JOSEPH F. WIEDMAN jwiedman@goodinmacbride.com	KENNETH C. JOHNSON kjinovation@earthlink.net	LAURIE PARK lpark@navigantconsulting.com
JOHN JENSEN jjensen@kirkwood.com	JAMES W. TARNAGHAN jwmctarnaghan@duanemorris.com	KEVIN J. SIMONSEN kjsimonsen@ems-ca.com	LEONARD DEVANNA lrdevanna-rf@cleanenergysystems.com
Jason R. Salmi Klotz jk1@cpuc.ca.gov	JASMIN ANSAR jxa2@pge.com	KHURSHID KHOJA kkhoja@thelenreid.com	Lainie Motamedi lrm@cpuc.ca.gov
JOSEPH M. KARP jkarp@winston.com	KAREN LINDH karen@klindh.com	GREGORY KLATT klatt@energyattorney.com	STEVE RAHON lschavrien@semprautilities.com
JOSEPH R. KLOBERDANZ jkloberdanz@semprautilities.com	KARLA DAILEY karla.dailey@cityofpaloalto.org	KAREN NORENE MILLS kmills@cfbf.com	LAURIE TEN HOPE ltenhope@energy.state.ca.us
JOHN LAUN jlaun@apogee.net	KATHRYN WIG Kathryn.Wig@nrgenergy.com	KIM KIENER kмкиener@fox.net	Lana Tran litt@cpuc.ca.gov
JOHN W. LESLIE jleslie@luce.com	KAREN BOWEN kbowen@winston.com	AVIS KOWALEWSKI kowalewskia@calpine.com	MARCEL HAWIGER marcel@turn.org
JANE E. LUCKHARDT jluckhardt@downeybrand.com	KENNETH A. COLBURN kcolburn@symbioticstrategies.com	Kristin Ralff Douglas krd@cpuc.ca.gov	MARCIE MILNER marcie.milner@shell.com
Jaclyn Marks jm3@cpuc.ca.gov	KIRBY DUSEL kdusel@navigantconsulting.com	KYLE L. DAVIS kyle.l.davis@pacificcorp.com	MARY LYNCH mary.lynn@constellation.com
Jacqueline Greig jnm@cpuc.ca.gov	KEVIN WOODRUFF kdw@woodruff-expert-services.com	KYLE SILON kyle.silon@ecosecurities.com	BRUCE MCLAUGHLIN mclaughlin@braunlegal.com
JODY S. LONDON jody_london_consulting@earthlink.net	KEITH R. MCCREA keith.mccrea@sablaw.com	KYLE D. BOUDREAUX kyle_boudreaux@fpl.com	MARC D. JOSEPH mdjoseph@adamsbroadwell.com
JOSEPH M. PAUL Joe.paul@dynegy.com	KELLIE SMITH kellie.smith@sen.ca.gov	LARS KVALE lars@resource-solutions.org	MICHEL FLORIO mflorio@turn.org
JOHN P. HUGHES john.hughes@sce.com	KELLY BARR kelly.barr@srpnet.com	LAURA I. GENAO Laura.Genao@sce.com	MICHELLE GARCIA mgarcia@arb.ca.gov
JOHN R. REDDING johnredding@earthlink.net	BILL LOCKYER ken.alex@doj.ca.gov	LISA A. COTTLE lcottle@winston.com	MICHAEL A. HYAMS mhyams@sfwater.org
Jonathan Lakritz jol@cpuc.ca.gov	KEN ALEX ken.alex@doj.ca.gov	LISA DECARLO ldecarlo@energy.state.ca.us	MIKE LAMOND Mike@alpinenaturalgas.com
JOSEPH HENRI josephhenri@hotmail.com	KENNY SWAIN kenneth.swain@navigantconsulting.com	LEILANI JOHNSON KOWAL leilani.johnson@ladwp.com	Matthew Deal mjd@cpuc.ca.gov
JOY A. WARREN joyw@mid.org		DONALD C. LIDDELL, P.C. liddell@energyattorney.com	MARTIN A. MATTES mmattes@nossaman.com

MICHAEL MAZUR mmazur@3phasesRenewables.com	PETER W. HANSCHEN phansch@mofo.com	RICK C. NOGER rick_noger@praxair.com	SAEED FARROKHPAY saeed.farrokhpay@ferc.gov
MONICA A. SCHWEBS, ESQ. monica.schwebs@bingham.com	PHIL CARVER Philip.H.Carver@state.or.us	RITA NORTON rita@ritanortonconsulting.com	SAM SADLER samuel.r.sadler@state.or.us
MICHAEL P. ALCANTAR mpa@a-klaw.com	PHILLIP J. MULLER philm@scdenenergy.com	RANDALL W. KEEN rkeen@manatt.com	SANDRA CAROLINA sandra.carolina@swgas.com
MARC PRYOR mpryor@energy.state.ca.us	PETER JAZAYERI pjazayeri@stroock.com	RONALD MOORE rkmoore@gswater.com	SANDRA ELY Sandra.ely@state.nm.us
MRW & ASSOCIATES, INC. mrw@mrwassoc.com	PHILIP D. PETTINGILL ppettingill@caiso.com	RICHARD MCCANN, PH.D rmccann@umich.edu	ANNIE STANGE sas@a-klaw.com
MICHAEL SCHEIBLE mscheibl@arb.ca.gov	PAUL M. SEBY pseby@mckennalong.com	ROSS A. MILLER rmiller@energy.state.ca.us	SAKIS ASTERIADIS sasteriadis@apx.com
MICHAEL WAUGH mwaugh@arb.ca.gov	Paul S. Phillips psp@cpuc.ca.gov	Rahmon Momoh rmm@cpuc.ca.gov	SEAN P. BEATTY sbeatty@cwclaw.com
NADAV ENBAR nenbar@energy-insights.com	PAUL DELANEY pssed@adelphia.net	RICHARD J. MORILLO rmorillo@ci.burbank.ca.us	C. SUSIE BERLIN sberlin@mccarthyllaw.com
Nancy Ryan ner@cpuc.ca.gov	PATRICK STONER pstoner@lgc.org	ROBERT L. PETTINATO robert.pettinato@ladwp.com	SARAH BESERRA sbeserra@sbcglobal.net
NORA SHERIFF nes@a-klaw.com	PATRICIA THOMPSON pthompson@summitblue.com	ROBERT K. ROZANSKI Robert.Rozanski@ladwp.com	SHERYL CARTER scarter@nrdc.org
NICHOLAS LENSSEN nlenssen@energy-insights.com	PETER V. ALLEN pvallen@thelen.com	ROGER C. MONTGOMERY roger.montgomery@swgas.com	STEVEN M. COHN scohn@smud.org
NORMAN J. FURUTA norman.furuta@navy.mil	Pamela Wellner pw1@cpuc.ca.gov	ROGER PELOTE roger.pelote@williams.com	SCOTT TOMASHEFSKY scott.tomashefsky@ncpa.com
JESSICA NELSON notice@psrec.coop	Pearlie Sabino pzs@cpuc.ca.gov	ROGER VAN HOY rogerv@mid.org	SCOTT J. ANDERS scottanders@sandiego.edu
NORMAN A. PEDERSEN npedersen@hanmor.com	RACHEL MCMAHON rachel@ceert.org	RONALD F. DEATON ron.deaton@ladwp.com	Steve Roscow scr@cpuc.ca.gov
NINA SUETAKE nsuetake@turn.org	RALPH E. DENNIS ralph.dennis@constellation.com	RASHA PRINCE rprince@semprautilities.com	SETH HILTON sdhilton@stoel.com
S. NANCY WHANG nwhang@manatt.com	Richard A. Myers ram@cpuc.ca.gov	ROBERT J. REINHARD rreinhard@mofo.com	SHAUN ELLIS sellis@fypower.org
OBADIAH BARTHOLOMY obartho@smud.org	RANDY S. HOWARD randy.howard@ladwp.com	ROBERT R. TAYLOR rrtaylor@srpnet.com	STEVE ENDO sendo@ci.pasadena.ca.us
OLOF BYSTROM obystrom@cera.com	RANDY SABLE randy.sable@swgas.com	DONALD BROOKHYSER rsa@a-klaw.com	SEPHRA A. NINOW sephra.ninow@energycenter.org
ORLANDO B. FOOTE, III ofoote@hkcf-law.com	RICHARD COWART rapcowart@aol.com	REED V. SCHMIDT rschmidt@bartlells.com	Scott Murtishaw sgm@cpuc.ca.gov
PANAMA BARTHOLOMY pbarthol@energy.state.ca.us	RICHARD HELGESON rhelgeson@scppa.org	ROBIN SMUTNY-JONES rsmutny-jones@caiso.com	STEVEN G. LINS slins@ci.glendale.ca.us
PAM BURMICH pburmich@arb.ca.gov	RAYMOND HUNG RHHJ@pge.com	REID A. WINTHROP rwinthrop@pilotpowergroup.com	SEEMA SRINIVASAN sls@a-klaw.com
PIERRE H. DUVAIR pduvair@energy.state.ca.us	RYAN WISER rhwiser@lbl.gov	RYAN FLYNN ryan.flynn@pacificcorp.com	STEVEN S. MICHEL smichel@westernresources.org
JAN PEPPER pepper@cleanpowermarkets.com	RICHARD SMITH richards@mid.org	STEPHANIE LA SHAWN SIL7@pge.com	SAMARA MINDEL smindel@knowledgeinenergy.com

Sara M. Kamins  
smk@cpuc.ca.gov

SID NEWSOM  
snewsom@semprautilities.com

SHERIDAN J. PAUKER  
spauker@wsgr.com

SEBASTIEN CSAPO  
sscb@pge.com

SARA STECK MYERS  
ssmyers@att.net

STEPHEN G. KOERNER, ESQ.  
steve.koerner@elpaso.com

STEVEN SCHILLER  
steve@schiller.com

STEVE KROMER  
stevek@kromer.com

STEVEN HUHMAN  
steven.huhman@morganstanley.com

STEVEN S. SCHLEIMER  
steven.schleimer@barclayscapita  
l.com

STEVEN KELLY  
steven@iepa.com

STEVEN A. LIPMAN  
steven@lipmanconsulting.com

STEVEN MOSS  
steven@moss.net

Sean A. Simon  
svn@cpuc.ca.gov

SYMONE VONGDEUANE  
svongdeuane@semprasolutions.c  
om

SOUMYA SASTRY  
svs6@pge.com

Christine S. Tam  
tam@cpuc.ca.gov

THERESA BURKE  
tburke@sfwater.org

TRENT A. CARLSON  
tcarlson@reliant.com

Theresa Cho  
tcx@cpuc.ca.gov

THOMAS DARTON  
tdarton@pilotpowergroup.com

TREVOR DILLARD  
tdillard@sierrapacific.com

TOM HAMILTON  
THAMILTON5@CHARTER.N  
ET

TAMLYN M. HUNT  
thunt@cecmil.org

TIFFANY RAU  
tiffany.rau@bp.com

TIM HEMIG  
tim.hemig@nrgenergy.com

TIMOTHY R. ODIL  
todil@mckennalong.com

THOMAS ELGIE  
Tom.Elgie@powerex.com

R. THOMAS BEACH  
tomb@crossborderenergy.com

THOMAS S. KIMBALL  
tomk@mid.org

THOMAS DILL  
trdill@westernhubs.com

THEODORE ROBERTS  
troberts@sempra.com

UDI HELMAN  
UHelman@caiso.com

VERONIQUE BUGNION  
vb@pointcarbon.com

VITALY LEE  
vitaly.lee@aes.com

VALERIE J. WINN  
vjw3@pge.com

VIDHYA PRABHAKARAN  
vprabhakaran@goodinmacbride.  
com

VIRGIL WELCH  
vwelch@environmentaldefense.o  
rg

WILLIAM H. BOOTH  
wbooth@booth-law.com

RAYMOND J. CZAHAR,  
C.P.A.  
westgas@aol.com

WAYNE TOMLINSON  
william.tomlinson@elpaso.com

Wade McCartney  
wsm@cpuc.ca.gov

WEBSTER TASAT  
wtasat@arb.ca.gov

WILLIAM W. WESTERFIELD,  
111  
www@eslawfirm.com

JUSTIN C. WYNNE  
wynne@braunlegal.com

YVONNE GROSS  
[ygross@sempraglobal.com](mailto:ygross@sempraglobal.com)

JEANNE ZAIONTZ  
[zaiontj@bp.com](mailto:zaiontj@bp.com)

DOCKET OFFICE  
CALIFORNIA ENERGY  
COMMISSION  
[doCKET@energy.state.ca.us](mailto:doCKET@energy.state.ca.us)

KAREN GRIFFIN  
[kgriffin@energy.state.ca.us](mailto:kgriffin@energy.state.ca.us)

DOWNEY BRAND  
DOWNEY BRAND  
Sacramento Municipal  
555 CAPITOL MALL, 10TH  
FLOOR  
SACRAMENTO, CA 95814-  
4686

MATTHEW MOST  
EDISON MISSION  
MARKETING & TRADING,  
INC.  
160 FEDERAL STREET  
BOSTON, MA 02110-1776

THOMAS MCCABE  
EDISON MISSION ENERGY  
18101 VON KARMAN AVE.,  
SUITE 1700  
IRVINE, CA 92612

KAREN EDSON  
151 BLUE RAVINE ROAD  
FOLSOM, CA 95630

MARY MCDONALD  
DIRECTOR OF STATE  
AFFAIRS  
CALIFORNIA INDEPENDENT  
SYSTEM OPERATOR  
CAISO  
151 BLUE RAVINE ROAD  
FOLSOM, CA 95630

CALIFORNIA ENERGY  
COMMISSION  
DOCKET OFFICE, MS-4  
RE: DOCKET NO. 07-OIPP-01  
1516 NINTH STREET  
SACRAMENTO, CA 95814-  
5512

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